

VZCZCXYZ0000
RR RUEHWEB

DE RUEHBU #0758/01 0931922
ZNR UUUUU ZZH
R 031922Z APR 06
FM AMEMBASSY BUENOS AIRES
TO RUEHC/SECSTATE WASHDC 4032
INFO RUEATRS/DEPT OF TREASURY WASHDC
RUCPDO/USDOC WASHDC
RUEHRC/USDA FAS WASHDC 2128
RUEHC/DEPT OF LABOR WASHDC
RHMFISS/HQ USSOUTHCOM MIAMI FL

UNCLAS BUENOS AIRES 000758

SIPDIS

SIPDIS

PASS FED BOARD OF GOVERNORS FOR PATRICE ROBITAILLE
TREASURY FOR DAS LEE, RAMIN TOLOUI AND CHRIS KUSHLIS
NSC FOR SUE CRONIN
AND OCC FOR CARLOS HERNANDEZ
USDOC FOR ALEXANDER PEACHER
USDOL FOR ILAB PAULA CHURCH AND ROBERT WHOLEY
USSOUTHCOM FOR POLAD
OPIC FOR GEORGE SCHULTZ AND RUTH ANN NICASTRI

E.O. 12958: N/A

TAGS: [EFIN](#) [ECON](#) [ELAB](#) [ALOW](#) [AR](#)

SUBJECT: Argentina Economic and Financial Weekly for
the week ending March 31, 2006

Weekly Highlights

- GOA expands its restrictions on beef exports to include processed beef and cattle.
- Enargas allows distributors to increase gas tariffs an average of 20 percent.
- The Chamber of Deputies approved the rescission of Aguas Argentina's concession contract
- Standard and Poor's upgrades Argentina's sovereign credit rating.
- February trade surplus reaches USD 706 million - below market expectations.
- Commentary of the Week: "Defending the View that the Recent GDO Increase was a Historical Record"

GOA expands its restrictions on beef exports to include processed beef and cattle.

¶1. On March 31, the GOA issued a resolution strengthening restrictions on beef export. The resolution includes exports of processed beef and cattle in the previous 180-day beef export ban. The aim of this measure is to increase local supply and avoid further increases in domestic beef prices. With this new restriction, only beef exports to the European Union under the Hilton quota program and exports guaranteed under bilateral agreements with Argentina are exempt from the suspension

Enargas allowed distributors to increase gas tariffs an a average 20 percent.

¶2. Enargas (the National Gas Regulator) allowed an average 20 percent rise in the price of natural gas for wholesale users (industrial and commercial users). The increase will be retroactive to July 2005 and will serve to compensate gas distributors for the higher

prices they have been paying for gas at wellhead. Still pending is the gas tariff increase for residential users.

The Chamber of Deputies approved the rescission of Aguas Argentina's concession contract

¶3. On March 29, the Chamber of Deputies approved the bill that rescinds Aguas Argentina's concession contract. However, Deputies postponed until next week the debate on the creation of the state-owned water company AYSA (Agua y Saneamientos Argentinos SA), because some deputies questioned the legal figure of the new company.

GOA to issue USD 500 million of the Bonar V bond in the near future.

¶4. On March 28, the Minister of Economy Felisa Micela announced that the GOA is planning to issue USD 500 million worth of the Bonar V by the end of next week. The issuance would be the second tranche in a program of USD 1.5 billion that is planned for this year. The first tranche of USD 500 million of the Bonar V was sold last week at a yield of 8.36 percent. Miceli stated that GOA aims to issue the USD 1.5 billion worth of Bonar V during the year, in order to fulfill the 2006 financial program. The Bonar V is a USD denominated bond that amortizes principal at maturity and pays 7 percent interest coupon semiannually.

Standard and Poor's upgraded Argentina's sovereign credit rating.

¶5. On March 24, the credit rating agency Standard and Poor's (SP) upgraded Argentina's long-term sovereign credit rating to "B" from "B minus" and short-term credit rating to "B" from "C". SP press release stated that Argentina's upgrade was supported by its solid economic and fiscal performances in recent years and the expectation that this trend will continue over the next two years. The sovereign credit rating has a "stable" outlook, reflecting Argentina's improved external and fiscal flexibility.

February trade surplus of USD 706 million - below market expectations.

¶6. The February trade surplus reached USD 706 million, below the BCRA consensus forecast of USD 804 million. The lower than expected surplus is due to stronger import growth. Export revenues increased 17 percent y-o-y to USD 3 billion, with increases in both prices (+11 percent) and quantities (5 percent). Exports were driven by an increase in fuel and energy (+32 percent y-o-y), agro-industrial products (+24 percent y-o-y), industrial goods (+8 percent y-o-y) and primary goods (+6 percent y-o-y). Imports increased 25 percent y-o-y to USD 2.3 billion, showing strong domestic demand, with increases in both quantities (+22 percent) and prices (+2 percent). Imports were driven by increases in accessories for capital goods (+42 percent), vehicles for passengers (+40 percent), consumer goods (+36 percent), capital goods (+34 percent), fuel and oil (+16 percent) and intermediate goods (+9 percent). According to the BCRA consensus survey, the trade surplus is expected to narrow to USD 10.2 billion in 2006 compared to USD 11.3 billion in 2005.

 BCRA rolls over its maturities. Investors concentrated their bids in Nobacs and short term Lebacs.

¶7. The BCRA received ARP 662 million in bids at its March 28 Lebac auction, less than the ARP 1.3 billion in Lebacs that came due during the week. However, the BCRA received ARP 962 million in bids in its Nobac auction. As in previous auctions, the BCRA was able to roll over its maturities by accepting bids for ARP 1.35 billion (ARP 649 million in Lebacs and ARP 702 million in Nobacs). The yield on the 35-day Lebac decreased from 6.7 percent to 6.69 percent, while the yield on the 63-day Lebac dropped ten basis points from 6.95 percent to 6.85 percent. The yield on the 91-day Lebac dropped from 7.28 percent to 7.18 percent. Lebacs for other maturities were withdrawn due to lack of interest. Investors concentrated more than 59 percent of their bids in Nobacs of more than 9 months. The spread on the nine-month Nobac decreased two basis points from 3.0 percent to 2.8 percent, while the spread on the two-year Nobac dropped nine basis points from 4.82 percent to 4.73 percent. Investors continue concentrating their bids in Nobacs, since these instruments have a variable rate and provide a higher yield and short-term Lebacs given that these instruments do not have any adjustment in its interest.

 Balance of Payments: Current account surplus of USD 5.4 billion and net capital inflows of USD 2.7 billion in 2005.

¶8. On March 22, the GOA announced its balance of payments results with a current account surplus of USD 1.5 billion in the fourth quarter, bringing total current account surplus to USD 5.4 billion in 2005 - compared to USD 3.3 billion in 2004. The trade surplus reached USD 12.7 billion in 2005 - compared to USD 13.2 billion in 2004.

¶9. The capital and financial account showed net capital inflows of USD 1.5 billion in the fourth quarter, bringing total net capital inflows to USD 2.7 billion in 2005 - compared to USD 1.7 billion in 2004. Inflows during 2005 were mainly from the non-financial public sector for USD 611 million and from the non-financial private sector for USD 3.5 billion, which were partially offset by outflows of the financial private sector outflows of USD 1.4 billion. The increase in capital inflows is mainly explained by the end of the debt exchange, the increasing demand for GOA bonds, and the strong economic growth that boosted investments inside the country. Central Bank reserves increased USD 8.8 billion mainly due to BCRA purchases in the foreign exchange market, bringing BCRA reserves at the end of December to USD 28 billion.

BALANCE OF PAYMENTS (USD in M)	2005	2004	Difference
(A) CURRENT ACCOUNT	5,407	3,278	2,129
1 TRADE BALANCE	12,714	13,239	-525
2 SERVICES	-1,666	-1,666	0
3 INVESTMENT SERVICES & DIVIDENDS	-6,312	-8,922	2,610
4 TRANSFERS	671	627	44
(B) CAPITAL AND FINANCIAL ACCOUNT			
	2,764	1,782	982
1 CAPITAL ACCOUNT	90	43	47

2 FINANCIAL ACCOUNT	2,674	1,739	935
(C) ERRORS AND OMISSIONS	686	259	427
(D) INTERNATIONAL RESERVES	-8,857	-5,319	-3,538
OVERALL BALANCE (A)+(B)+(C)-(D)	0.00	-	0.00

March Government Confidence Index up 3.1 percent m-o-m.

¶10. The Government Confidence Index increased 3.1 percent m-o-m in March to 2.7 points, and is 11 points above the average during the Kirchner administration, and well above the 1.2 point reading in May 2003 when President Kirchner took office. Confidence in the GOA's ability to solve citizens' problems is still the factor generating the most confidence. Public opinion of GOA general performance increased 5 percent m-o-m, while public opinion on efficiency of public spending remained unchanged. The index fell 4 percent y-o-y. [The Government Confidence Index is a survey-based index prepared by Di Tella University. It varies from zero to five points and seeks to measure public opinion of GOA general performance, efficiency of public spending, honesty of GOA officials and the government's ability to solve problems.]

The peso was unchanged against the USD this week, closing at 3.09 ARP/USD.

¶11. The peso remained flat versus the USD this week, closing at 3.09 ARP/USD. Earlier in the week, the

peso depreciated one cent to 3.10 ARP/USD, due to strong dollar demand. The BCRA purchased USD 98 million in the FX market in the first four days of the week, and only purchased EUR 4 million in the last two days of the week. The BCRA has purchased USD 2.3 billion since the beginning of the year, compared to USD 829 million during the same period last year. The peso exchange rate has depreciated 1.3 percent since the beginning of the calendar year.

Commentary of the Week: "Defending the View that the Recent GDO Increase was a Historical Record". (Note: By Guillermo Wierzba, President of the CEFID-AR think tank, published in response to the article by Abel Viglione reproduced in last week's Weekly Report. End Note.)

¶12. The force of the quantitative data on the evolution of Argentine economy demands recognition of its successful performance by economists of different schools of thought. Nevertheless, their deepest reflections and conclusions are dissimilar and come from distinctly different points of view about economic processes.

¶13. The orthodox point of view does not give up a good dose of realism and sense of opportunity, and expresses opinions that assume the improvements that the current numbers represent are unobjectionable. But they omit to pass judgment on the merits of the success that has come from the change in the political and economic paradigm, and they express reservations and warnings with respect to the most audacious, heterodox and progressive elements of the course chosen.

¶14. Abel Viglione, an economist with FIEL, published a note [reproduced in the March 23rd Weekly Report] in which he simultaneously emphasized the growth obtained from 2003 to the present, but then disputes quantitatively this evolution in an analysis comparing it with other situations from different historical periods from the 19th century until convertibility. In the mentioned note, he runs the methodological risk of putting together short, three-year series, and comparing with them dispersed moments in a long period that runs from the 19th to the 21st century. The exercise is carried out by contrasting the components of aggregate demand, making abstract very important qualitative elements: the profound differences in the composition and complexity of GDP in the different moments analyzed, the greater or lesser quality of the national accounting system (which certainly was very precarious in the first periods analyzed), the macroeconomic sustainability in which the economy operated, the financial conditions for growth, as well as the social sensitivity of growth.

Comparison

¶15. The article emphasizes the construction of a ranking comparing the growth during the government of Jurez Celman (which ended in a very serious crisis) with that of Quintana (which developed into the most dynamic years of Argentina in the world economy, in the context of a strong penetration into the English food market), and with the one of Yrigoyen (which began at the close of World War I and coincided with the reopening of international trade and the continuance of the first import substitutions that took place during the conflict). The article also includes in the comparison the first years of convertibility and the present period. The conclusion of the economist from FIEL, as shown in the title of his article, was that the present growth is good, but

it is less than the growth during the majority of the other periods analyzed. From this, he concludes that the current expansion was not the most important of the last hundred years.

¶16. We cannot ignore that the purpose of Viglione's article was to compare the first part of convertibility with the economic performance of 2003-2005. The comparative analysis adds little value in terms of economic conclusions, and actually contributes to the confusion. The article says very little and it omits the fundamental point when it talks of GDP growth rates without putting them in the context of their distinct economic models. The first three years of convertibility were those of privatizations, the liquidation of the public equity and the installation of the pillars of an economic policy model that was unsustainable in the long term. In those first years of convertibility, in spite of the important GDP growth rates, the unemployment rate also was growing, and reached 9.9 percent in 1993. The model also included a fixed exchange rate, an appreciated currency, and an economy without a state presence and with concentrated and omnipresent markets.

¶17. The present growth, however, is taking place in the context of a consistent macroeconomic model, with a solid external sector, sound public finances, a decreasing unemployment rate and low interest rates compatible with growth in investment.

¶18. The relevant discussion is to analyze economic growth rates along with the qualitative concepts in which the growth develops. The neo-liberal logic, which adored the "stabilization at any price" of

convertibility and promoted the economic reforms of the 1990s that led to the 2001 disaster, now tries to downplay the consistency of economic policy and avoid the debates that are needed.

¶19. In the article, the FIEL economist cannot stop himself from including a note expressing his sadness about GDP measured in dollars at the over-valued exchange rate of convertibility. He also cannot help but mention the growth of other Latin American countries during the last few years to put Argentine growth in perspective, even though growth rates in Argentina were higher than those of all other countries in the region.

¶20. There has to be a debate about relevant issues. Today, those are analyzing, thinking and discussing how to continue growing, about how to define and strengthen a strategy for development, of the characteristics of the reconstruction of the State and its role in the economy, and of the redistribution policy that aims to make sure that the benefits of growth are enjoyed intensely by all sectors of society. (Note: We reproduce selected articles by local experts for the benefit of our readers. The opinions expressed are those of the authors, not of the Embassy. End Note.)

GUTIERREZ